

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE	)	
FUEL ADJUSTMENT CLAUSE	)	ADMINISTRATIVE
REGULATION 807 KAR 5:056	)	CASE NO. 309

O R D E R

On December 18, 1989, the Commission issued an Order in this proceeding finding that the current fuel adjustment clause ("FAC") met the Commission's objectives for the timely recovery of changes in fuel costs and did not require incorporation of a partial pass-through provision. The Commission did find, however, that a procedure for billing over- and under-recoveries should be incorporated into the calculation of the monthly FAC factor for the electric generating utilities ("Generators"). The proposed procedure is similar to one utilized by the electric distribution utilities that have been billing over- and under-recoveries for many years. A proposed FAC reporting format that incorporates over- and under-recoveries was appended to the Commission's Order and the parties were asked to file comments. Comments were received from the Generators regarding the reporting format and the proper implementation of the over- and under-recovery mechanism. The following discussion addresses those comments.

## Reporting Format

The proposed reporting format was acceptable to Big Rivers Electric Corporation ("Big Rivers"), East Kentucky Power Cooperative, and Louisville Gas and Electric Company. Kentucky Utilities Company ("KU") and Kentucky Power Company ("Kentucky Power") indicated that due to having Kentucky jurisdictional retail sales and non-jurisdictional wholesale sales, some changes to the proposed FAC reporting format would be required. KU stated that since its wholesale customers have a fully synchronized fuel clause (no lag time between cost and recovery), and since the over- and under-recoveries result from retail customer billings, non-jurisdictional fuel costs and sales should be removed from the calculations on pages 1, 2, and 3 of the proposed FAC report. KU indicated that its proposed changes would still allow fuel costs to be determined on a system-wide basis in accordance with 807 KAR 5:056 and then be adjusted to recognize retail fuel costs for use in calculating the over- or under-recovery amount on page 4 of the proposed reporting form.

Kentucky Power proposed to modify page 4 of the report format in order to include only Kentucky jurisdictional sales in the calculation of the over- or under-recovery. Kentucky Power also pointed out that it would continue to require the deviation approved by the Commission in Case No. 7213<sup>1</sup> which allows Kentucky

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<sup>1</sup> Case No. 7213, An Adjustment in the Tariff of Kentucky Power Company for Compliance with the Commission Regulation 807 KAR 2:055, Fuel Adjustment Clause, Order dated October 30, 1978.

Power to estimate the fuel cost for interchange power received during the month and adjust to the actual cost in the following month. The Commission agrees that the modifications under consideration in this investigation will not obviate Kentucky Power's need for the deviation previously granted.

The Commission is persuaded that non-jurisdictional sales must be recognized and excluded from the calculation of any over- or under-recovery. The Commission agrees that such an adjustment should be made in order to produce an accurate match of fuel cost and fuel recovery. However, such adjustment should affect only the over- or under-recovery calculation and should not affect the determination of a utility's current month system average fuel cost apart from the over- or under-recovery calculation. For this reason, the Commission finds that the reporting format proposed by Kentucky Power provides a proper recognition of non-jurisdictional sales in calculating the over- or under-recovery. KU's proposal to remove non-jurisdictional sales and fuel cost from the calculations on pages 2 and 3 of the report form results in a Kentucky jurisdictional retail FAC factor which is not based on system average fuel costs but is based on the fuel cost remaining after deducting the non-jurisdictional FAC factor. KU's proposal is not in conformity with the FAC regulation. Therefore, the Commission will adopt a modification to page 4 of the FAC report which excludes non-jurisdictional sales only from the calculation of the monthly over- and under-recovery. The modified calculation is based on Kentucky Power's proposed reporting format and is attached as Appendix A to this Order.

## Implementing the Over- and Under-Recovery

Big Rivers stated that the Generators should be allowed to roll-in cumulative under-recovered fuel costs in the first reporting month after the FAC report is revised. KU took the opposite position and urged that over- and under-recoveries incurred prior to the adoption of the revised FAC report should not be included in any FAC calculations. KU contended that any other treatment would constitute retroactive rate-making.

The Commission previously addressed this issue in Case No. 9175-B<sup>2</sup> involving cumulative over-recoveries by The Union Light, Heat and Power Company ("ULH&P"). In that case, the Commission denied refunds of past over-collection after finding that, "Although the FAC revenue collected by ULH&P has exceeded its incurred FAC cost, there has been no improper calculation under the FAC. Any over-collection in the FAC component of total fuel cost was a direct consequence of not having the tracker provision to match FAC revenue to FAC cost." The Commission finds that Big Rivers' request should be similarly denied. Any attempt to refund or collect previously incurred over- and under-recoveries would constitute retroactive rate-making. Therefore, the over- and under-recovery mechanism should be applied prospectively only.

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<sup>2</sup> Case No. 9175-B, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Union Light, Heat and Power Company from May 1, 1985 to October 31, 1989, Order dated November 6, 1986.

The Commission will implement the over- and under-recovery mechanism at the same time for all Generators. KU offered the only comments concerning the effective date of implementation and indicated a three-month transition period was required to eliminate any retroactive application. A three-month period is necessary to account for the two-month delay attributable to the normal lag between FAC cost incurrence and FAC cost recovery, plus one additional month to recognize the impact of bimonthly billing. To ensure that all costs are applied prospectively and that the over- and under-recovery mechanism becomes effective at the same time for all Generators, the Commission will require the revised FAC report to be effective for bills rendered three months subsequent to the effective date of this Order.

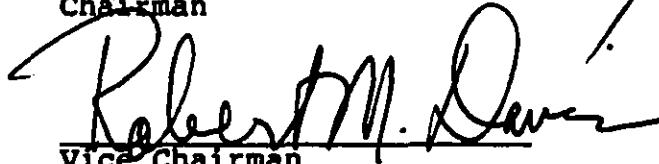
IT IS THEREFORE ORDERED that the revised FAC report, attached hereto as Appendix A, shall be filed monthly by each Generator effective with bills rendered on and after July 1, 1990.

Done at Frankfort, Kentucky, this 16th day of April, 1990.


PUBLIC SERVICE COMMISSION



Chairman



Vice Chairman



Commissioner

ATTEST:

  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION  
IN ADMINISTRATIVE CASE NO. 309 DATED 4/16/90

Company: \_\_\_\_\_

FUEL ADJUSTMENT CLAUSE SCHEDULE

Month Ended: \_\_\_\_\_

$\frac{\text{Fuel Fm (Fuel Cost Schedule)}}{\text{Sales Sm (Sales Schedule)}} = \text{_____} = (+)$

$\frac{\text{Fuel (Fb)}}{\text{Sales (Sb)}} \quad \quad \quad (-)$

(+)

\_\_\_\_\_  
(\$/KWH)

Effective Date for Billing: \_\_\_\_\_

Submitted By: \_\_\_\_\_  
(Signature)

Title: \_\_\_\_\_

Date Submitted: \_\_\_\_\_

Company: \_\_\_\_\_

## FUEL COST SCHEDULE

Month Ended: \_\_\_\_\_

## A. Company Generation

Coal Burned	(+)
Oil Burned	(+)
Gas Burned	(+)
Fuel (jointly owned plant)	(+)
Fuel (assigned cost during F.O.)	(+)
Fuel (substitute for F.O.)	(-)

Sub Total \_\_\_\_\_

## B. Purchases

Net Energy Cost-Economy Purchases	(+)
Identifiable Fuel Cost - Other Purchases	(+)
Identifiable Fuel Cost (substitute for F.O.)	(-)

Sub Total \_\_\_\_\_

## C. Inter-System Sales

Fuel Costs \_\_\_\_\_

## D. Over or (Under) Recovery from Page 4 \_\_\_\_\_

Total Fuel Cost (A + B - C - D) \_\_\_\_\_

Company: \_\_\_\_\_

## SALES SCHEDULE

Month Ended: \_\_\_\_\_

A. Generation (Net)	(+)	
Purchases Including Interchange In	(+)	
Sub-Total		_____
 B. Pumped Storage Energy	(+)	
Inter-System Sales Including Interchange Out	(+)	
Systems Losses	(+)	
Sub-Total		_____
Total Sales (A - B)		_____



COMPANY: \_\_\_\_\_

(OVER) OR UNDER-RECOVERY SCHEDULE

Month Ended: \_\_\_\_\_

1. Last FAC Rate Billed \_\_\_\_\_
2. KWH Billed at Above Rate \_\_\_\_\_
3. FAC Revenue/(Refund) (L1 x L2) \_\_\_\_\_
4. KWH Used to Determine Last FAC Rate \_\_\_\_\_
5. Non-Jurisdictional KWH (Included  
in L4) \_\_\_\_\_
6. Kentucky Jurisdictional KWH  
(Included in L4) (L4 - L5) \_\_\_\_\_
7. Recoverable FAC Revenue/(Refund)  
(L1 x L6) \_\_\_\_\_
8. Over or (Under) Recovery (L3 - L7) \_\_\_\_\_
9. Total Sales (Page 3) \_\_\_\_\_
10. Kentucky Jurisdictional Sales \_\_\_\_\_
11. Ratio of Total Sales to Kentucky  
Jurisdictional Sales (L9 + L10) \_\_\_\_\_
12. Total Company Over (Under) Recovery  
(L8 x L11) (Page 2, Line D) \_\_\_\_\_